



# Doing Business in Tuvalu

## Location

Tuvalu a small country comprising nine low-lying atolls and a total land area of 26 square kilometres is located approximately 1,000 kilometres north of the Fiji Islands and just west of the International Date Line. The country's Exclusive Economic Zone (EEZ) covers 900,000 square kilometres of ocean and has a total population of around 9,760 people.

Tuvaluan is the indigenous language; however, English is the official language in Tuvalu and is spoken widely throughout the country.

## Government

Tuvalu became an independent nation in 1978 after gaining its independence from the United Kingdom. The government is run like the Westminster system and has Queen Elizabeth II as its Head of State and represented by the Governor General, Reverend Filoimea Telito.

The Fale i Fono or the Parliament consists of fifteen elected members and has the authority in making laws for the country. These parliamentarians are elected every four years through elections by universal suffrage of all citizens over eighteen years of age. The last election in August 2006 saw members of Parliament elect the Honorable Mr. Apisai Ileleima as Tuvalu's Prime Minister.

The country's court system consists of the sovereign in council, court of Appeal and the High Court, which are courts of general trial and appellate jurisdiction, and the Magistrates Courts, Island Courts, and the Land Courts.

## At a Glance

**Population:** 9760 (2006)

**Land Area:** 26 square kilometres

**EEZ:** 900,000 square kilometres

**GNP:** A\$26.2million (2004)

**Major Industries:** fishing fees, remittances and copra

**Merchandise Exports (FOB):** A\$80,403 (2005)

**Major Exports:** copra, stamps, handicrafts and garments

**Merchandise Imports (CIF):** A\$16,908,332 (2005)

**Major Imports:** food and live animals; manufactured goods; mineral fuels; and machines, transport and equipment

**Currency:** Australian Dollar

Each of Tuvalu's eight inhabited islands is based around a single village and has a distinct sense of community and identity. Traditional councils of chiefs work with the elected government and are the authorities on matters of custom. To ensure continuity of traditional customs, a council of chiefs operates alongside the official system at the local level. Under the Falekapule Act 1997, increased powers were given to the island councils to prioritise local development needs within the framework of the central government's overall development objectives.

The central government's development goals include public-sector reform, human resource development, improvement of the country's economic and education infrastructure and the further development of its capacity to manage its limited resource base.

## Economic Profile and Performance

The commercial economy of the country is dominated by government activity with the majority of its population involved in subsistence fishing and agriculture. A significant source of income for a lot of families is through remittances from Tuvaluan seamen employed on overseas vessels. In 2006 about 15% of the adult male populations were working on vessels.

In 2006 GDP growth was estimated at 3% up by 1% from previous year, whilst Public sector expenditures increased by 25% to A\$30.6million. Increased donor assistance in terms of aid for the construction of the Funafuti power station, upgrade of the Tuvalu Maritime Training Institute for seafarer accounted for this increase. Remittances contributed to A\$4million in income whereas fishing license fees showed a decline. Income from its domain name was projected at A\$2.9million and inflation was at 3.8% in 2006.

The Tuvalu Trust Fund (TTF) which was valued at \$77 million in 2006 plays an important role in maintaining financial sustainability whilst government revenue is projected to rise to A\$34million in 2007 and expenditures are forecasted to rise by 27% to A\$39 million.

Economic growth of 2 – 3% is projected for 2007 and 2008, driven largely by donor-funded public investment projects.

Source: ADB Asian Development Outlook, 2007

## Industry Sectors

The main economic ventures in Tuvalu include the following:

**Construction:** Only a few local contractors are engaged in the housing, road maintenance and infrastructure projects.

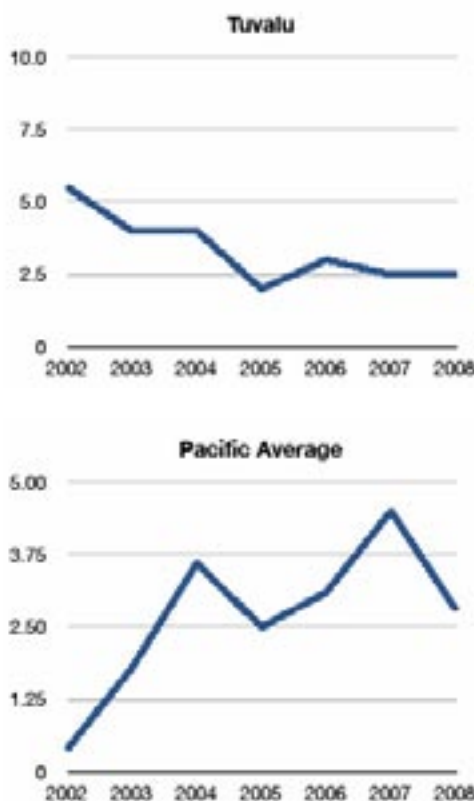
**Manufacturing:** There is only a very limited manufacturing sector in Tuvalu. The main industries are small-scale timber processing and handicrafts. Timber is sourced from the limited local resources or from overseas, mainly New Zealand.

**Subsistence Agriculture and Farming:** With its low lying atolls and poor soil quality, the country is not highly self-sufficient in agricultural production. Its only commodity export is Copra and limited production of pork and poultry takes places for local consumption.

**Tourism Industry:** Tuvalu's smallness and remoteness gives it a non-commercial tourism destination. In 2005 tourist arrivals were just around 1,085 and numbers were up by 50 to 1,135 in 2006.

**Wholesale and Retail:** Given its limited manufacturing sector, almost all of Tuvalu's goods are imported with small retail shops located throughout the islands.

GDP Growth (%) 2002-2008



Source: ADB Asian Development Outlook, 2007.  
2007 and 2008 are estimates.

## Imports and Exports

Total exports from Tuvalu amounted to A\$80,403 and were limited to the sale of copra, stamps, handicrafts and garments. Imports in 2005 were over A\$16 million, comprising food and live animals; manufactured goods; and machines, transport and equipment.

Exports are largely to Fiji, Australia and New Zealand. Whilst imports are sourced from Australia, Fiji, New Zealand and Asia.

## Labour and Human Resources

Fifty-five percent of the population is aged 15 – 59 years and 36.4% are younger than 15 years old. Those employed make up 59.1% that earn some sort of wages, 18.1% from remittances and those with own businesses at 5.4%. More than half of the population is involved in subsistence activities such as farming, fishing and handicrafts. In the urban areas labour force participation rate is at 61% with males making up the majority.

Fifty-one percent of those in the education sector are enrolled in primary education, 14.3% in secondary and 8.1% in tertiary education. Most people in Tuvalu speak English and take further education in New Zealand. While there are local schools, there are no technical training colleges; however these may be done in the neighboring Pacific Islands which have several technical colleges for the region. The Tuvalu Business Centre undertakes specialized training courses and will tailor courses for particular requirements.

There is a plentiful supply of unskilled labour in Tuvalu; however, shortages of semiskilled, skilled and managerial workers exist. Permits are granted to investors involved in any project and for expatriate personnel where comparable local staff is not available.

Most wage rates in the private sector are based upon the government salary scale. Minimum hourly wage rates for unskilled casual labour AUD\$2.25 being fairly typical.

The salary scale for clerical to managerial levels is as follows:

### **Salary Range (Per Annum)**

Higher Managerial	AUD\$17,961 – AUD\$22,395
Managerial	AUD\$14,405 – AUD\$17,094
Technical	AUD\$7,434 – AUD\$14,922
Clerical	AUD\$5,294– AUD\$8,334

## Infrastructure

Given its isolation, infrastructure development has proven difficult in Tuvalu and its outer islands. Port facilities have been upgraded and international airport tar sealed with the hope of extending its runway in order to handle larger fleets such as 737 jet aircrafts. The only airline currently servicing the nation is Air Fiji with only limited inter-island vessels servicing the outer islands.

Electricity is generated by imported petroleum products and is available on the main island and in all the outer islands. There are no rivers or lakes and the country relies on limited tank storage for water. In relation to telecommunications, Tuvalu is linked to the world by both telephone and Internet facilities.

The only international airport on Tuvalu is on the main island of Funafuti which sees international air services provided by Air Fiji on the Funafuti - Fiji Route. Preparations are in place for Air Pacific to also service this route once approval is given. Currently, aircraft capacity is limited and the airport can not as yet handle the larger 737 jet



aircrafts, instead it utilizes the ATR 42 Aircrafts.

The main port on Tuvalu is in Funafuti which can handle 20-foot container ships; the other port is on Nukufetsu. International shipping services are limited to monthly calls by two companies, namely Oceanlink and Pacific Direct Line. Services to the various outer islands are limited.

The National Bank of Tuvalu is the only existing commercial bank in the country providing personal, business and international banking services. The Development Bank of Tuvalu offers finance for commercially viable business ventures at concessional rates.

## Investment Policy and Regulations

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The Foreign Direct Investment Act 1996 legislates all foreign investments in Tuvalu. Given the countries geographical nature, the Government of Tuvalu is still enthusiastic in welcoming all investments and deals with each proposal on a case-by-case basis.

The institution tasked with overseeing investment activities is the Foreign Investment Facilitation Board (FIFB), under the auspices of the Ministry of Tourism, Trade and Commerce. The FIFB is able to provide all necessary information regarding investment opportunities in the country whilst all application proposals must be submitted to the FIFB for its consideration. In addition applicants are obliged to complete a Foreign Direct Investment Questionnaire (FDIQ) which requires information such as the size and nature of the project, its projected costs and benefits, land requirements and other information that may be needed to fully assess the particular investment project proposal.

All investment proposals are appraised by the FIFB together with any necessary granting of concessions whilst recommendations are made to the Minister responsible for final approval. The normal processing time for the Minister's review and consent is more or less 30 days; however, any large investments may be referred to the Cabinet for consideration and approval.

Investment Approval procedure:

- Submission of Investment proposal to FIFB;
- Appraisal of the Investment proposal by the FIFB;
- Report and recommendation made by FIFB to the Minister responsible;
- Approval or Rejection of the investment by the Minister; and
- Post-report activities of the Board;

Companies wishing to undertake business in Tuvalu must be registered with the Registrar of Companies.

Incentives are granted on a case-by-case basis as there are no specific or fixed set of investment incentives.

Under certain categories, the Minister of Finance can at their discretion, grant exemption for certain periods. Such areas include tourism and other pioneering industries.

## Trade Relations

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Tuvalu is a member of the Pacific Islands Forum and is a party to the Pacific Islands Countries Trade Agreement (PICTA) which entered into force in 2002 and involves a commitment to reduce and eliminate tariffs amongst the 14 Pacific Forum member countries. It has also signed on to the Pacific Area Closer Economic Relations (PACER) which includes Australia and New Zealand in addition to the 14 Forum Island countries.

## Taxation and Other Regulations

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The Income Tax Act 1992 stipulates the rate of income tax for those individual earning more than AUD\$4,000 whereby non-individual and local entities are taxed at 30% and 40% for foreign entities. Business income is taxed on net profits, however exemptions may be applied.

Additional taxes put in place include taxes on dividends, rents, and royalties. Sales tax is imposed on imported goods. Customs duties are placed on all imports and a special import levy applies in addition to the normal customs duties.

Most capital items, including plant, machinery and vehicles for newly established businesses, are exempt from duty



upon application and all building materials are imported duty free.

New changes to taxes and customs legislations will soon be taking place and the drafting of this will commence in 2007 with finalization in the not too distant future.

## Investment Opportunities

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Although Tuvalu is hindered by its scarce land and limited resources which add to constraints in its development, Tuvalu is in the vicinity of offering unique opportunities that when given the chance can flourish to viable business prospects. The following are areas for possible development:

**Fishing and Seafood Processing:** The sparsely spaced atoll of Tuvalu gives it a very large and wealthy 900,000 square kilometres of ocean in its EEZ. Foreign fishing vessel licensing is the main income, however, it is the government's wishes that other forms of investment within this area is also explored and maximized.

**Small-scale Hydroponics Project:** There exists opportunities in developing a hydroponics project for the shortage of local fresh green vegetables and fruits which are at present being imported from overseas. Profitability is guaranteed given the disposable incomes of the local population.

**Specialist IT Services:** Tuvalu has become well known as a result of its 'dot tv' business and there is an opportunity to take advantage of this promotion through the provision of associated web design and networking services. The country's well developed communications infrastructure would facilitate such a venture and an increasing number of locals are undertaking IT related trainings overseas to accommodate this sector.

**Tourism:** As one of the smallest nations in the world, the unspoiled and non-commercialized atolls of Tuvalu offer an inimitable tourist destination. Its crystal clear waters, spectacular marine environment and distinctive Polynesian culture tender an exceptional touch to any investors contemplating investing in these islands.

## Business Development Assistance

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### TUVALU BUSINESS CENTRE

Initiated in 1998 by the United Nations Development Programme (UNDP), the Tuvalu Business Centre aims to strengthen and expand the business sector in Tuvalu. It provides trainings, courses and individual assistance for existing businesses and potential entrepreneurs.

Several scheduled courses are planned for throughout the year including those taking place in the outer islands. Individual assistance to businesses and entrepreneurs include feasibility studies, business plans and funding proposals.

## Financial Services

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### DEVELOPMENT BANK OF TUVALU

The Development Bank of Tuvalu was established under the Development Bank of Tuvalu Act 1990 and commenced operating in 1993. It is 100% owned by the Government of Tuvalu.

The bank provides finance for all types of business ventures, with emphasis on the provision of concessional loans to commercially viable projects. Commercial loans are divided into two segments:

- Maximum loan for agriculture and fishing is 80% of the project cost;
- Maximum loan for commercial and industry projects is 65% of the project cost;

Available loans to all applicants ranges from A\$500 to A\$50,000.

### NATIONAL BANK OF TUVALU

The National Bank of Tuvalu was set up in 1980 and is 100% owned by the Government of Tuvalu. The bank offers a range of personal and commercial financial services with commercial loans having a maximum of five years. Loans are usually provided for up to A\$50,000.

## Useful Contacts

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### DEVELOPMENT BANK OF TUVALU

PO. Box 9  
Vaiaku, Funafuti  
TUVALU  
Phone: (688) 20 199  
Fax: (688) 20 850

### DEPARTMENT OF FOREIGN AFFAIRS AND LABOR

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### NATIONAL BANK OF TUVALU

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### TUVALU BUSINESS CENTRE

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# The Pacific Islands Trade & Investment Commission, Sydney

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## Who We Are and What We Do

We are one of four overseas agencies of the Suva-based Pacific Islands Forum Secretariat (PIFS). PIFS has other overseas offices located in Japan, New Zealand, and the People's Republic of China.

We work closely with a network of government and private sector agencies in the 14 Pacific Islands who are members of Pacific Islands Forum.

Our aim is to improve the capabilities of their private sector; in particular in enterprise, export and tourism development.

## Our Functions

1. To assist Pacific Island enterprises develop sustainable business and trade activities.
2. To assist Pacific Island governments and private sector service providers develop their tourism potential.
3. To support private sector growth in the Pacific Islands, including promoting intra-regional investment.
4. To support business linkages between government and enterprises in the Pacific Islands and Australia through efficient and effective dissemination of market information.

## Out Special Projects Unit

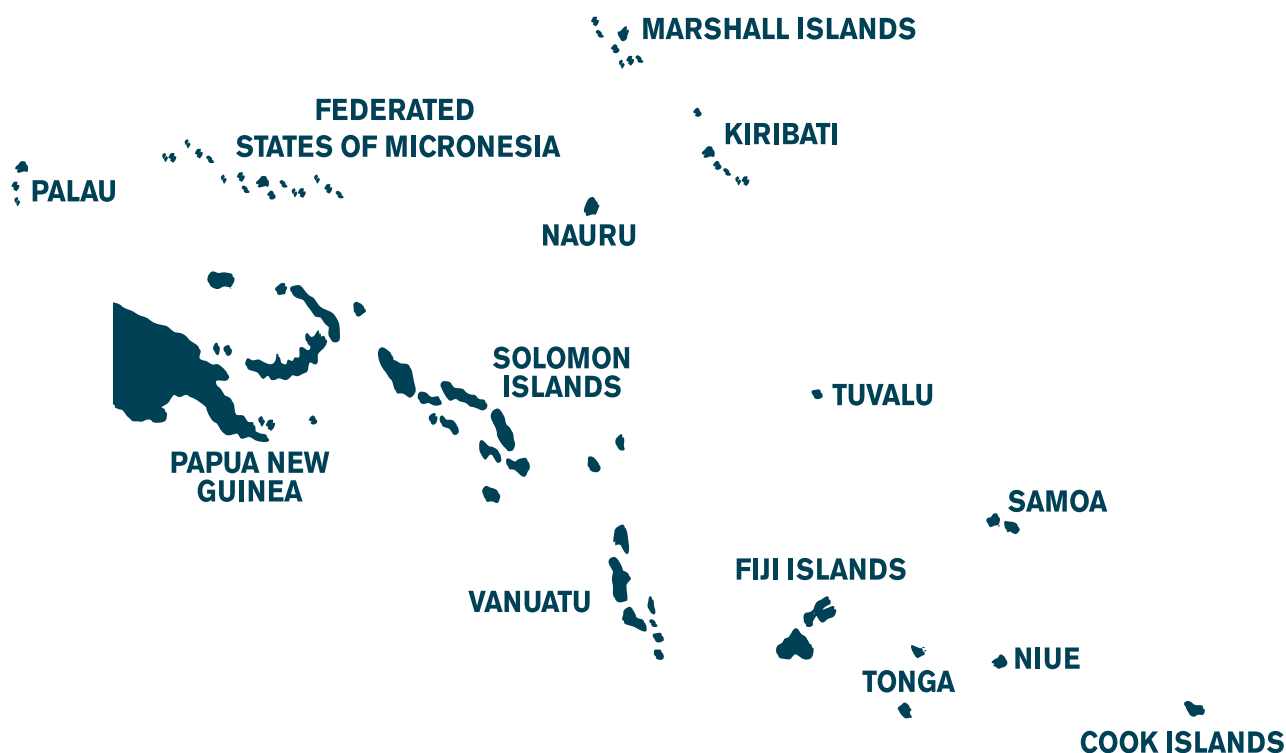
- Supports private sector development in 14 Pacific Islands Countries.
- Promotes intra-regional investment development.
- Supports the business development programs of Small Island States (SIS).
- Supports skills development, including through capacity building initiatives.

## Our Newsletters

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Our newsletter provides practical information about trade, tourism and investment trends in the Pacific Islands and Australia. Pacific Outlook also contains up-to-date information on developments on regulatory changes and requirements for trade and industry in the region.

Our newsletters are published on a bi-monthly basis. Register online at [www.pitic.org.au](http://www.pitic.org.au) for your free subscription.





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